

Valddez

Tanker

Tax

✓
Tony Knowles, Governor

DEPARTMENT OF REVENUE

Tax Division

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VIA FAX

March 8, 2000

*Tanker tax
file*

The Honorable Andrew Halcro
Chairman, House Transportation Committee
Alaska State Legislature
State Capitol, Room 418
Juneau, AK 99801-1182

Dear Chairman Halcro;

At the March 7, 2000 meeting of the House Transportation Committee, you requested that I send some of my work concerning the effect of the Valdez Tanker tax on state revenue. I am enclosing a summary spreadsheet that compares the first year under three scenarios. I have used 1999 property values from the January 2000 DCED publication Alaska Taxable, except for the estimated value of the tankers which comes from Mr. Bill Walker, attorney for Valdez. Scenario One details Valdez's tax position without a tanker tax.

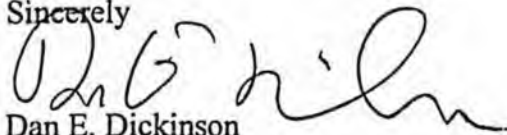
My original work (scenario two) was based on the assumption that Valdez would keep its spending flat, and the increase in collections from the tanker tax would give relief to the non-oil & gas rate payers in Valdez. This relief would take the form of a drop in the mill rate from 20 to 13.7 mills. The model estimates the effect on the four state oil and gas revenue sources: royalties, production tax, property tax and income tax. In this scenario, in the first year of the tax, the industry would pay out an additional \$4.2 million dollars, of which the state would gain \$2.8 million and Valdez non-oil & gas property tax payers would gain \$1.4 million.

Considering the testimony in the hearing, I have added a third scenario. In this scenario, Valdez collects more in tanker tax (at 20 mills instead of at 13.7 mills), and continues to tax all other property at the 20 mill rate. This means there is no increase in state property tax revenues – only larger decreases in royalty, production tax and income tax. In this scenario, in the first year of the tax, the city of Valdez would collect an additional \$8.1 million. The net payment from industry would be \$6.1 million, with a \$2 million decrease in state revenues accounting for the rest.

I have contacted Representative Kemplen directly to discuss his concerns on TAPS valuations, and will forward to you any materials that result from those discussions.

I can be reached at 269 1033 if you or any of your staff wish to walk through the details of the enclosed spreadsheets, or discuss any other aspects of this issue.

Sincerely

A handwritten signature in black ink, appearing to read "Dan E. Dickinson". The signature is fluid and cursive, with the first name "Dan" being particularly prominent.

Dan E. Dickinson
Director, Tax Division

Cc. Larry Persily,
Deputy Commissioner

Sent Via Fax, hard copy to follow.

**Effect of Valdez Tanker Tax
Using 1999 Valuations from Taxable Alaska
and Preliminary Tanker Valuations**

	Scenario One: No Ordinance	Scenario Two: Ordinance and Lowered Mill Rate	Scenario Three: Ordinance and Retain 20 Mill Rate	
Tax Base:				
Local taxable (exl tankers) 1999 (AT pg. 35)	216,209,162			
43.56 Property tax 1999 (AT pg. 35)	664,841,090			
Total Base	<u>881,050,252</u>			
1999 Mill Rate (AT pg. 35)	20.0000			
TAXES Paid/Payable to Valdez				
Local Taxable	4,324,183			
43.56 Property	13,296,822			
Totals	<u>17,621,005</u>			
Add Tankers to Tax Base:				
Tankers: Assessed, Pre Apportionment Value:	<u>\$ 404,000,000</u>		\$ 404,000,000	
New Tax Base:				
43.56 Property tax 1999 (AT pg. 35)+A19	216,209,162	216,209,162		
Tankers	664,841,090	664,841,090		
Total Base	<u>404,000,000</u>	<u>404,000,000</u>		
	1,285,050,252	1,265,050,252		
Mill Rate	<u>13.71</u>	<u>20.00</u>	<<< Difference in Scenarios	
TAXES Paid/Payable to Valdez				
Local Taxable	2,964,727	4,324,183		
43.56 Property	9,116,506	13,296,822		
Tankers	5,539,772	8,080,000		
Totals	<u>17,621,005</u>	<u>25,701,005</u>		
Change In Taxes Paid/Payable to Valdez- Total				
Local Taxable	(1,359,457)	-		
43.56 Property	(4,180,316)	-		
Tankers	5,539,772	8,080,000		
Totals	<u>-</u>	<u>8,080,000</u>		
Change In Taxes Paid/Payable to Valdez or State by Industry				
43.56 Property	-	-		
Tankers	(5,539,772)	(8,080,000)		
Totals	<u>(5,539,772)</u>	<u>(8,080,000)</u>		
Change In Taxes Paid/Payable to Valdez by Other Valdez Taxpayers				
Local Taxable	1,359,457	-		
Totals	<u>1,359,457</u>	<u>-</u>		
Change In Taxes Paid/Payable to State by Industry				
43.56 Property	4,180,316	-		
Tankers				
Totals	<u>4,180,316</u>	<u>-</u>		
Effect of New Costs on Net back:				
Royalty 0.125	592,472	1,010,000		
Severance Tax: 0.105	581,676	848,400		
Net Effect on all parties before Income Tax	<u>(4,265,625)</u>	<u>(6,221,600)</u>		
Income Tax 0.0235	100,242	146,208		
Net Effect on Industry after estimated Income Tax	<u>(4,165,383)</u>	<u>(6,075,392)</u>		
Royalty	(692,472)	(1,010,000)		
Severance Tax:	(581,676)	(848,400)		
Net Effect on all parties before Income Tax	<u>2,906,168</u>	<u>(1,858,400)</u>		
Income Tax ESTIMATED	(100,242)	(146,208)		
Net Effect on State after estimated Income Tax	<u>2,805,926</u>	<u>(2,004,608)</u>		
Summary Check Figures:				
Industry	(4,165,383)	(6,075,392)		
State	2,805,926	(2,004,608)		
City of Valdez	-	8,080,000		
Other Valdez Taxpayers	1,359,457	-		
Check Figure	<u>0</u>	<u>-</u>		

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIRST LEGISLATURE - SECOND SESSION

BY THE HOUSE TRANSPORTATION COMMITTEE

Introduced:
Referred:

A BILL

FOR AN ACT ENTITLED

1 "An Act amending the oil and gas properties production tax to extend the
2 exemption set out in that tax from the imposition of taxes by the state and its
3 municipalities for certain personal property used or committed by contract or
4 other agreement primarily for the marine transportation of gas and unrefined oil
5 in interstate or foreign commerce; and providing for an effective date."

6 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

7 * **Section 1.** AS 43.55.017(a) is amended to read:

8 (a) Except as provided in this chapter, the taxes imposed by this chapter are
9 in place of all taxes now imposed by the state or any of its municipalities, and neither
10 the state nor a municipality may impose a tax upon

- 11 (1) producing oil or gas leases;
- 12 (2) oil or gas produced or extracted in the state;
- 13 (3) the value of intangible drilling and exploration expenses;

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(4) tankers, tank ships, combination carriers, and similar waterborne vessels, ships, and barges, that are used or that have been committed by contract or other agreement primarily for the marine transportation of gas and unrefined oil in interstate or foreign commerce.

* Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

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HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIRST LEGISLATURE - SECOND SESSION

BY THE HOUSE TRANSPORTATION COMMITTEE

**Introduced:
Referred:**

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to exemptions from the levy and collection of property taxes by
2 general law and home rule municipalities for certain personal property used or
3 committed by contract or other agreement primarily fo, the marine transportation
4 of gas and unrefined oil in interstate or foreign commerce; and providing for an
5 effective date."

6 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

7 * **Section 1.** AS 29.45.030(a) is amended to read:

8 (a) The following property is exempt from general taxation:

9 (1) municipal property, including property held by a public corporation
10 of a municipality, or state property, or land that is in the trust established by the
11 Alaska Mental Health Enabling Act of 1956, P.L. 84-830, 70 Stat. 709, except that

12 (A) a private leasehold, contract, or other interest in the
13 property is taxable to the extent of the interest;

1 (B) notwithstanding any other provision of law, property
2 acquired by an agency, corporation, or other entity of the state through
3 foreclosure or deed in lieu of foreclosure and retained as an investment of a
4 state entity is taxable; this subparagraph does not apply to federal land granted
5 to the University of Alaska under AS 14.40.380 or 14.40.390, or to other land
6 granted to the university by the state to replace land that had been granted
7 under AS 14.40.380 or 14.40.390;

8 (C) an ownership interest of a municipality in real property
9 located outside the municipality acquired after December 31, 1990, is taxable
10 by another municipality; however, a borough may not tax an interest in real
11 property located in the borough and owned by a city in that borough;

12 (2) household furniture and personal effects of members of a
13 household;

14 (3) property used exclusively for nonprofit religious, charitable,
15 cemetery, hospital, or educational purposes;

16 (4) property of a nonbusiness organization composed entirely of persons
17 with 90 days or more of active service in the armed forces of the United States whose
18 conditions of service and separation were other than dishonorable, or the property of
19 an auxiliary of that organization;

20 (5) money on deposit;

21 (6) the real property of certain residents of the state to the extent and
22 subject to the conditions provided in (e) of this section;

23 (7) real property or an interest in real property that is exempt from
24 taxation under 43 U.S.C. 1620(d), as amended;

25 (8) property of a political subdivision, agency, corporation, or other
26 entity of the United States to the extent required by federal law; except that a private
27 leasehold, contract, or other interest in the property is taxable to the extent of that
28 interest;

29 (9) natural resources in place including coal, ore bodies, mineral
30 deposits, and other proven and unproven deposits of valuable materials laid down by
31 natural processes, unharvested aquatic plants and animals, and timber;

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(10) tankers, tank ships, combination carriers, and similar waterborne vessels, ships, and barges that are used or that have been committed by contract or other agreement primarily for the marine transportation of gas and unrefined oil in interstate or foreign commerce.

* Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

TESTIMONY OF THE
ALASKA OIL & GAS ASSOCIATION
ON VALDEZ TANKER TAX

House Transportation Committee
March 7, 2000

Good afternoon, Mr. Chairman and Members of the Committee. My name is Mark Hanley and I am the chair of the Alaska Oil and Gas Association (AOGA) State Legislative Committee. AOGA is an industry trade association whose 17 members represent the great majority of the petroleum industry in Alaska. I am here today to present AOGA's comments on the city of Valdez Tanker Tax. All 17 members unanimously agree on this position. Companies such as Shell, Anadarko, ExxonMobil, ARCO, BP Amoco and Chevron.

AOGA has several significant concerns about the municipal property tax which the City of Valdez recently imposed on oil tankers that carry North Slope crude oil from Valdez to destinations outside the state which I would like to present to the Committee.

First, the Alaska State Constitution identifies all state resources, including the petroleum resources of the North Slope, as assets of the people of Alaska as a whole, not just any particular municipality. With the imposition of this

tanker tax, Valdez has unilaterally raised the costs of moving the North Slope resources to market. These increased costs have raised the bar, which ongoing and new investments for North Slope development will have to clear in order to be competitive. This additional cost will affect current as well as new development, including proposed development of NPR-A and, hopefully someday, ANWR. We believe it is in the long-term interest of no one in Alaska - including Valdez - to impair or prevent the full economic development of the North Slope's potential.

Second, the tax raises a serious public policy question about who sets the terms and policy for oil and gas development in Alaska - the Legislature and the State of Alaska on behalf of all the citizens of the state or the various municipalities acting on their own. In this particular instance, one municipality has initiated action for its own benefit, which impacts the broader concerns of all the state's citizenry. These matters should remain with the state.

AOGA's third concern is that the tanker tax sends a threatening signal about the stability of Alaska's tax climate to potential new players in Alaska's petroleum industry precisely at the time when they are facing key decisions about whether or not to become major investors in Alaska. This signal is just as negative for potential investors in gas development as it is for possible

purchasers of oil-related assets. Because it raises doubt about what additional taxes Valdez might try to impose on a gas commercialization project, if such elements of such projects are built and located within the City's boundaries.

AOGA's fourth concern is the penalizing effect the tax has on shipping companies and their recent and future investment decisions regarding their fleet. Any additional investments in the current fleet, like the new ARCO millennium tankers, translate directly into greater marine transportation costs because of the property tax imposed by the city of Valdez. Any future investment decisions for the fleet will factor in the additional economic burden and risk of greater municipal taxes.

For these reasons, AOGA strongly opposes the city of Valdez's property tax on oil tankers. We urge the legislature to consider legislation to include vessels as exempt properties that are listed under AS 43.55.017 and retain oil and gas tax policy at the state level.

Thank you for the opportunity to testify.

**Alaska Support Industry Alliance
 Testimony on the Valdez Tanker Tax
 House Transportation Committee - March 7, 2000**

By Karen Cowart, General Manager

Thank you Chairman Halcro and members of the House Transportation Committee for the opportunity to testify.

My name is Karen Cowart, General Manager for the Alaska Support Industry Alliance. The Alaska Support Industry Alliance (The Alliance) represents over 350 businesses that provide products and services to the oil and gas industry. We are oilfield service companies, transportation enterprises, wholesale and retail businesses, professional firms and private citizens. Collectively, we employ over 29,000 people in Alaska, 26,000 of which are permanent Alaska residents. As a statewide, non-profit trade organization, The Alliance strongly advocates legislation and government policies that encourage responsible oil and gas exploration, development and production.

We understand your committee will be discussing amending state laws to include oil and gas vessels to the list of oil and gas properties that are exempt from personal property taxes by state or municipalities. The Alliance strongly opposes any measure that would add an additional tax burden on the oil and gas industry.

- **It Makes Alaska Less Competitive** as a location for oil and gas industry activity. The truth is that Alaska holds less than 1% of the world's oil reserves. We compete with places where it costs \$5 to produce a barrel of oil and ship it to market. In Alaska costs are significantly higher - \$9 to \$10. To stay competitive, entice investments and survive downswings in oil prices, we must be more efficient - NOT more expensive. Additional vessel taxes obviously

increase the cost of producing oil and gas and moving these commodities to market.

- **It Unfairly Penalizes Industry's Commitment To Replace Older Vessels with new, double-hauled tankers.** A company may not be as eager to invest significant resources to better their tanker fleet, knowing they will have to assume not only the cost of the new vessels, but additional taxes.
- **It Deters Future Investors.** In light of the pending BP Amoco acquisition of ARCO, it is even more imperative today for Alaska to attract new major producers and operators to the state. The proposed ordinance is a potential impediment in the State's efforts to attract new investors in the exploration, development and production of North Slope properties, the Trans-Alaska Pipeline System, and Alaska's vast natural gas development potential. Adding new taxes sends an extremely onerous message to potential investors. It says "unstable and uncertain." We can't afford that.

We ask the legislature to consider legislation to include vessels as exempt properties and retain the existing oil and gas tax policy at the state level.

Thank you for the opportunity to testify.

Testimony of ARCO Alaska, Inc.
By Jerry Gallagher Manager, Government Relations
March 7, 2000 House Transportation Committee

Good afternoon. My name is Jerry Gallagher and I am the Manager of Government Relations at ARCO Alaska, Inc. I want to thank you for listening to ARCO's concerns about the "Tanker Tax" enacted by the City of Valdez in November of 1999.

We have two very real concerns with the Tanker Tax:

- The Tanker Tax is contrary to the long-standing state policy that the taxation of the oil and gas business is set and administered by the State for the benefit of all Alaskans. Allowing any single community to have the ability to unilaterally impose additional taxes on our industry is a serious policy issue with statewide implications.
- ARCO is penalized by the Valdez Tanker Tax because we "have done the right thing" and built the most advanced, environmentally safe, tankers in the world. Because our Millennium Class tankers are so advanced, they are more expensive – and will pay a significantly higher tanker tax than older, less advanced ships.

This is just plain wrong.

Historically, state policy has been that all facets of oil and gas taxation are determined at the state level and are set to derive the maximum benefit for all Alaskans. The various statutes identify both the opportunities and limits on local governments.

For example, AS 43.55.017 does not allow local municipalities to impose a tax on oil and gas leases or production. Other state laws define in detail how those communities that are lucky enough to have oil and gas facilities within their borders, such as the Trans Alaska Pipeline or oil production facilities on the North Slope, may tax them. The valuation of TAPS is established by the State and the TAPS owners pay a total of 20 mills in property tax. The local government collects at the local mill rate while the State collects the difference between the local rate and 20 mills.

The Valdez tanker tax targets the oil shippers in Prince William Sound. Exempted from the tanker tax are vessels less than 95 feet in length, fishing vessels, or vessels that moor at the municipal dock. It is directed only at the oil and gas industry and it scores a direct hit.

The tax adds costs to the production and transportation of ANS crude to the West Coast. And it sends a signal to various companies -- including those interested in commercializing North Slope gas -- that our tax system lacks the stability that we all strive for in order to develop our resources.

Like other shippers, ARCO has worked to make the transportation of oil in Prince William Sound the safest in the world. We've done the right thing building three new 125,000 dead weight ton tankers designed specifically for the Alaska trade route from Valdez to Puget Sound.

These new "Millennium Class" tankers meet or exceed the requirements of the Oil Pollution Act of 1990. They are equipped with redundant systems, including double hull, double rudders, double engines, and redundant navigation systems. The first of these ships will dock at Valdez in September. The ARCO Endeavour will carry on the tradition of the ARCO Juneau, the first ship to berth at Valdez in 1977.

Constructed at the cost of \$150 million dollars, the ARCO Endeavour will pay more in taxes than the other ships. This again sends the wrong message and is contrary to achieving our mutual goal of environmental protection and encouraging more companies to construct state-of-the-art tankers.

In summary, we believe the Valdez tanker tax is the wrong approach to resolving their long-term municipal fiscal issues. We have encouraged Valdez to consider fiscal restraint, imposition of a broad-based tax, or judicious use of the city's large Permanent Fund. And we would ask the members of the legislature to seriously consider the issue of local taxation of oil and gas property and the important policy implications it brings forward.

Thank you for this opportunity to visit with you today.

**THE FOLLOWING PAGES MAY
NOT FILM LEGIBLY BECAUSE OF
THE POOR QUALITY OF THE ORIGINAL**

Visiting tankers' assessed value tops \$400 million

By Terry Wilson
Valdez Vanguard

Tankers that visit Valdez are almost as valuable as the black gold they carry to the Lower 48.

A professional appraiser has assessed the value of vessels over 95 feet that are subject to the city's personal property tax on vessels at about \$408 million.

That's lower than initial estimates of about \$700 million, but the appraisal doesn't count the two new tankers expected in 2001. City Manager David Dengel said the new tankers could be valued at \$172 million each.

The tanker values are like money in the bank for Valdez, literally.

Although the city could lower its property tax rate this year to about 13.5 mills, down from 20, Dengel said. It's not

clear if Valdez would likely still have enough money to pay for all the services and projects in the 2000 budget, the tanker tax revenue will most likely be locked away in an escrow account.

"We are not recommending going to 13.5 mills. We will recommend we take the money and put it in the bank, because of the threat of litigation," Dengel said.

At a 13.5 mill rate, the city would reap more than \$55 million in tanker tax revenue.

Dengel cautioned a lower mill rate is based on the assumption that oil and gas property and non-oil and gas property values remain the same as estimated in the 2000 budget, and that all the vessels remain in Valdez. Trans-Alaska pipeline property is assessed annually by the state.

The current 20 mill rate was set primarily because the owners of Alyeska Pipeline Services Co. must pay 20 mills in property tax no matter what, according to their agreement with the state. If the city has a 13.5 mill rate, the rest of the 20 mills Alyeska pays goes to the state.

With a 20 mill rate, the city collects all of Alyeska's property tax payment.

But that's a heavy burden on the taxpayers, said Mike Williams, Valdez City Council member.

After the assessments are mailed this week, the vessel owners will have until April 6 to appeal the assessments. The board of equalization will hear the appeals May 15, and the city will set the mill rate by mid-June.

At that time, Williams said he will suggest a rebate program for local taxpayers. If the tanker tax stands up in court, he said the council should take the saved tanker tax revenue and distribute rebates based on a 13.5 mill rate.

For instance, a \$200,000 home in Valdez pays \$4,000 in property taxes with a 20 mill rate. At 13.5 mills, the same homeowner would pay \$2,700, so he or she would receive a \$1,300 rebate.

"I think the discussion will center around if the tax is overturned by the court, how will we recoup those funds if we go with 13.5 mill rate," Williams said. "But if the tax stands and is not overturned, I would want to give the people their taxes back."

Williams said some other council members may argue the money could be funneled into the Valdez Permanent Fund, which could be used to fund city government in the future.

"I feel taxes are paid for the services government delivers to people that year. I don't think you should tax to create a savings account."

— Mike Williams

"I feel taxes are paid for the services government delivers to people that year. I don't think you should tax to create a savings account," Williams said.

Litigation from oil companies is expected. In January, BP spokesperson Ronnie Chappell said the oil company, majority owner of Alyeska, intended to challenge the tanker tax in court.

The tax could also be threatened by legislative action or an attack by the state. The lower the mill rate, the more money the state will receive from Alyeska, and that could offset the loss of state royalty and production revenue.

Most of the tanker tax will be a deductible expense by the oil companies for the state's production tax, income tax and royalty calculation.

Den Dickinson, director of the state Oil and Gas Audit Division, said if the city's mill rate was to drop to about 12 mills, the state would actually make money, about \$2.8 million, because the amount it would lose in production tax and royalty revenue would be offset by the gain in property tax revenue from Alyeska.

The higher the city mill rate, the less money the state makes, and the more likely it may be to interfere, city officials have said.

In 1997, the last time the city imposed the tanker tax, it was adopted in March and repealed by May when legislation was about to be introduced that would have taken away municipal ability to tax tankers. City officials agreed to repeal the tax if the legislation was withdrawn.

This year, the Legislature has shown no signs of hearing such legislation, but the session is not over yet.

"I heard a company had put some feelers out, but at this point in time nothing has happened. That doesn't mean something won't happen in the future," said Sen. Georgianna Lincoln, Valdez's representative in the Alaska Senate.



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Valdez, Alaska

State strides

